

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004, AND JUNE 30, 2003**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Reporting Entity**

The Tennessee Housing Development Agency was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 *et seq.* The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

Agency operations are directed by a 19-member board of directors. The board consists of five members who serve *ex officio* (the State Treasurer, the Comptroller of the Treasury, the Commissioner of the Department of Finance and Administration, the Secretary of State, and a staff assistant to the Governor), and 14 appointed members -- 12 appointed by the Governor and one each by the Speaker of the House and the Speaker of the Senate. The board includes representatives of the housing, real estate, home-building, and mortgage-lending industries; representatives of local government and nonprofit organizations; and citizens from the public at-large.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

The Tennessee Housing Development Agency is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body, approves its operating budget, and provides some financial support. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

**b. Basis of Presentation**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The agency follows all applicable GASB pronouncements as well as applicable private-sector pronouncements issued on or before November 30, 1989. Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, and Homeownership Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

**c. Basis of Accounting and Measurement Focus**

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred.

**d. Capital Assets**

Capital assets, which include furniture and office equipment, are defined by the agency as assets with an initial, individual cost of \$5,000 or more.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**  
**JUNE 30, 2004, AND JUNE 30, 2003**

---

Capital assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

<u>Description</u>	<u>Estimated Life</u>
Furniture	10 years
Computer equipment	3 years

**e. Restricted Assets**

Restricted assets are comprised of the Debt Service Reserve Funds. The bond resolutions require the agency to establish a Debt Service Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund to cover any deficiency.

**f. Bond Issuance Costs, Refunding Costs, and Interest Accretion**

1. **Bond Issuance Costs:** The agency amortizes bond issuance costs using the interest method over the life of the related bond issue. The agency began using the interest method on July 1, 2002. Prior to that the agency used the bonds outstanding method. The change has no material effect on the results of operations. Unamortized bond issuance costs are reported as deferred charges.
2. **Bond and Note Refunding Costs:** The agency amortizes bond and note refunding costs using the straight-line method. Bonds and notes payable are reported net of the deferred amount on refundings.
3. **Bond Premiums and Discounts:** Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.
4. **Interest Accretion:** The difference between the face amount of deep discount bonds and the public offering price is not treated as bond discount. Deep discount bonds are subject to redemption at prices which increase from the public offering price up to the face amount. The carrying amount of these bonds is adjusted monthly to reflect the increased liability, with a corresponding charge to interest expense.
5. **Mortgage Discount:** Discounts on 30-year mortgage loans purchased by the agency are amortized using the straight-line method over 17 years, the estimated average life of mortgages. The amount amortized is credited to interest income.

**g. Cash and Cash Equivalents**

In addition to demand deposits, petty cash, and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

**h. Investments**

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies; obligations guaranteed by the U.S.; public housing bonds secured by contracts with the U.S.; direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee; obligations of other states or

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**  
**JUNE 30, 2004, AND JUNE 30, 2003**

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instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation; interest bearing time or demand deposits; collateralized certificates of deposit in authorized state depositories; and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value.

**i. Accrual of Interest Income**

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

**j. Mortgages**

Mortgages are carried at their original amount less principal collected.

**k. Operating Revenues and Expenses**

The agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the agency into mortgage loans to certain qualified individuals and qualified housing sponsors. The agency's primary operation is to borrow funds in the bond market and issue those funds to make single-family and multi-family loans. The primary operating revenue is the interest income on outstanding mortgages and the investment income from proceeds of bonds. The primary operating expense of the agency is the interest expense on bonds outstanding.

**l. Direct Servicing**

On May 1, 2003, the agency began a pilot program called Direct Servicing for servicing mortgages originated by the agency.

**NOTE 2. DEPOSITS AND INVESTMENTS**

**a. Deposits**

At June 30, 2004, the carrying amount of the agency's deposits was \$2,140,339 and the bank balances were \$3,410,184. Of the balances, \$1,343,829 was insured and \$2,066,355 was collateralized with securities held by the pledging financial institution's agent but not in the agency's name. On several days during the year, the amounts collateralized with securities held by the pledging financial institution's agent but not in the agency's name significantly exceeded the amount at year-end.

At June 30, 2003, the carrying amount of the agency's deposits was \$12,671,321 and the bank balances were \$13,234,158. Of the bank balances, \$1,272,376 was insured and \$11,961,782 was collateralized with securities held by the pledging financial institution's agent but not in the agency's name. On several days during the year, the amounts collateralized with securities held by the pledging financial institution's agent but not in the agency's name significantly exceeded the amount at year-end.

The laws of the State of Tennessee require that collateral be pledged at 105% of the value of uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was \$2,362,650 on June 30, 2004. The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was \$5,139,728 on June 30, 2003. The pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14<sup>th</sup> Floor William R

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**  
**JUNE 30, 2004, AND JUNE 30, 2003**

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Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

**b. Investments**

The agency's investments are categorized to indicate the level of custodial risk assumed by the agency at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the agency or its agent in the agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the agency's name. The agency's bond resolutions require repurchase agreements to be fully collateralized. Investments are categorized as follows:

<b>June 30, 2004</b>				
	<b>Category</b>			<b>Fair Value</b>
	<b><u>1</u></b>	<b><u>2</u></b>	<b><u>3</u></b>	
<b>Cash equivalents</b>				
Repurchase agreements	\$ 80,000,000			\$ 80,000,000
U S government securities	273,366,546			273,366,546
<b>Total cash equivalents</b>	<u>\$ 353,366,546</u>			<u>\$ 353,366,546</u>
<b>Investments</b>				
Repurchase agreements	\$ 15,000,000			\$ 15,000,000
U S government securities	363,929,969			363,929,969
State & local government securities	451,049			451,049
<b>Total investments</b>	<u>\$ 379,381,018</u>			<u>\$ 379,381,018</u>
<b>Cash equivalents and investments not subject to categorization:</b>				
Money Market Mutual Fund				18,427,969
<b>Total cash equivalents and investments</b>				<u><u>\$ 751,175,533</u></u>

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**  
**JUNE 30, 2004, AND JUNE 30, 2003**

<b>June 30, 2003</b>				
	<b>Category</b>			<b>Fair Value</b>
	<b><u>1</u></b>	<b><u>2</u></b>	<b><u>3</u></b>	
<b>Cash equivalents</b>				
Repurchase agreements	\$ 251,000,000			\$ 251,000,000
U S government securities	51,095,028			51,095,028
<b>Total cash equivalents</b>	<u>\$ 302,095,028</u>			<u>\$ 302,095,028</u>
<b>Investments</b>				
Repurchase agreements	\$ 38,000,000			\$ 38,000,000
U S government securities	410,080,608			410,080,608
State & local government securities	457,808			457,808
<b>Total investments</b>	<u>\$ 448,538,416</u>			<u>\$ 448,538,416</u>
<b>Cash equivalents and investments not subject to categorization:</b>				
Money Market Mutual Fund				\$ 46,475,422
Unsettled Investment Acquisitions				
U S government securities				4,040,640
<b>Total cash equivalents and investments</b>				<u><u>\$ 801,149,506</u></u>

The agency's bond resolutions require that repurchase agreements be continuously and fully secured with collateral having a market value equal at all times to the repurchase agreement. The market value of securities underlying repurchase agreements fell significantly below this required level on a few occasions during the year ended June 30, 2003, but no losses were incurred.

**NOTE 3. CHECKS PAYABLE**

This amount represents the sum of checks written in excess of the agency's checking account balance because of the agency's use of a controlled disbursement account. Through the use of a controlled disbursement account, the agency maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily.

**NOTE 4. LIABILITIES**

**a. Bonds Issued and Outstanding**

<b>BONDS ISSUED AND OUTSTANDING</b>					
(Thousands)					
Series	Maturity Range	Issued Amount	Interest Rate (Percent)	Ending Balance 06/30/2004	Ending Balance 6/30/2003
<b>MORTGAGE FINANCE PROGRAM BONDS</b>					
1993A	1/1/99-7/1/2028	\$265,910	4.70 to 5.95	\$ -0-	\$198,550
1994A	1/1/96-7/1/2025	60,000	4.40 to 6.90	2,200	28,240
1994B	7/1/96-7/1/2025	100,000	4.50 to 6.60	7,335	46,815
1995A	1/1/97-7/1/2026	80,000	5.45 to 7.125	-0-	36,205
1995B/C	1/1/97-7/1/2026	100,000	4.80 to 6.55	26,890	52,740
2003A	7/1/2004-7/1/2034	191,885	1.70 to 5.35	191,885	-0-
Total Mortgage Finance Program Bonds		<u>\$797,795</u>		\$228,310	\$362,550
Less: Deferred Amount on Refundings				(4,132)	(520)
Net Mortgage Finance Program Bonds				<u>\$224,178</u>	<u>\$362,030</u>

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**  
**JUNE 30, 2004, AND JUNE 30, 2003**

<b>BONDS ISSUED AND OUTSTANDING, (cont'd)</b>					
<b>HOMEOWNERSHIP PROGRAM BONDS</b>					
Issue K	7/1/92-7/1/2021	74,775	6.4 to 8.125	\$ 1	\$ 1
			Interest accretion	3	2
Issue WR	7/1/94-7/1/2017	49,900	4.25 to 6.80	-0-	17,775
Issue Y1/Z1	1/1/95-7/1/2024	50,000	3.50 to 6.10	13,095	18,460
Issue Y2/Z2	1/1/95-7/1/2024	30,000	3.50 to 5.75	8,885	12,770
1995-1	1/1/97-7/1/2026	65,000	4.35 to 6.48	11,035	22,140
1996-1	7/1/97-1/1/2026	40,000	4.00 to 5.85	19,695	27,280
1996-2	1/1/98-7/1/2027	65,000	4.40 to 6.375	29,495	45,295
1996-3	7/1/99-7/1/2028	65,000	4.30 to 6.00	24,975	34,665
1996-4	7/1/98-7/1/2027	55,000	4.35 to 6.45	22,255	40,370
1996-5	7/1/99-7/1/2028	60,000	3.85 to 5.75	38,980	49,255
1997-1	7/1/99-7/1/2028	57,885	4.00 to 5.40	37,755	47,575
1997-2	7/1/2000-7/1/2029	50,000	3.20 to 5.20	32,995	42,240
1997-3	1/1/98-7/1/2017	88,008	4.00 to 5.85	30,473	56,937
			Interest accretion	12,561	20,426
1998-1	7/1/2001-7/1/2030	50,000	3.95 to 5.40	33,230	41,630
1998-2	7/1/2000-7/1/2029	30,000	4.00 to 5.375	17,670	24,095
1998-3	7/1/2000-7/1/2031	80,000	3.70 to 6.15	46,470	65,670
1999-1	7/1/2001-7/1/2031	41,000	3.95 to 6.25	23,790	33,355
1999-2	7/1/2001-7/1/2031	150,000	4.25 to 5.70	58,120	83,635
1999-3	7/1/2001-7/1/2031	110,000	4.30 to 6.15	55,660	85,690
2000-1	7/1/2001-7/1/2031	105,000	4.60 to 6.40	52,910	91,165
2000-2	7/1/2001-7/1/2031	110,000	5.00 to 7.93	78,860	101,280
2001-1	7/1/2001-7/1/2032	135,390	3.41 to 5.65	95,370	113,535
2001-2	1/1/2003-7/1/2032	60,000	3.10 to 5.375	51,370	58,060
2001-3	1/1/2003-7/1/2032	64,580	2.85 to 5.45	53,690	61,785
2002-1	7/1/2003-7/1/2033	85,000	1.85 to 5.45	74,505	84,350
2002-2	1/1/2004-7/1/2033	85,000	2.25 to 5.40	79,015	85,000
2003-1	7/1/2004-7/1/2033	50,000	1.20 to 5.10	49,340	50,000
2003-2	7/1/2004-1/1/2034	60,000	1.10 to 4.40	60,000	-0-
2003-3	7/1/2004-7/1/2034	75,000	1.20 to 5.00	75,000	-0-
2004-1	1/1/2005-1/1/2035	\$80,000	1.30 to 5.00	80,000	-0-
Total Homeownership Program Bonds		<u>\$2,121,538</u>		\$1,267,203	\$1,414,441
Plus: Unamortized Bond Premiums				4,655	-0-
Less: Deferred Amount on Refundings				(6,737)	(6,965)
Net Homeownership Program Bonds				<u>1,265,121</u>	<u>1,407,476</u>
Net Total All Issues				<u>\$1,489,299</u>	<u>\$1,769,506</u>

**b. Debt Service Requirements**

Debt service requirements to maturity at June 30, 2004 are as follows (expressed in thousands):

For the Year(s) Ending	Total		
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2005	\$ 90,656	\$ 73,426	\$ 164,082
2006	51,568	72,984	124,552
2007	51,887	71,712	123,599
2008	50,166	70,279	120,445
2009	46,111	65,635	111,746
2010 – 2014	198,524	287,928	486,452
2015 – 2019	177,129	241,015	418,144
2020 – 2024	245,894	197,424	443,318
2025 – 2029	136,073	132,900	268,973
2030 – 2034	344,986	70,469	415,455
2035	<u>94,610</u>	<u>2,492</u>	<u>97,102</u>
Total	<u>\$1,487,604</u>	<u>\$1,286,264</u>	<u>\$2,773,868</u>

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**  
**JUNE 30, 2004, AND JUNE 30, 2003**

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The debt principal in the preceding table is \$1.695 million less than that presented in the accompanying financial statements. Of this amount, \$12.564 million represents the accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds. This accretion has been reported as bond principal in the financial statements; it has been reported above as interest in those years (2005-2009) in which the bonds mature. Also, \$10.869 million, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

**c. Redemption of Bonds and Notes**

During the year ended June 30, 2004, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of \$49,335,000 and in the Homeownership Program in the amount of \$91,623,222. The respective carrying values of the bonds were \$49,016,496 and \$90,981,765. This resulted in an expense to the Mortgage Finance Program of \$318,504 and the Homeownership Program of \$641,457.

On July 1, 2003, the agency used \$190,465,000 of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of \$180,485,000 early redemption and \$9,980,000 current maturities). The carrying amount of these bonds was \$188,991,633. The refunding resulted in a difference of \$1,473,367 between the reacquisition price and the net carrying amount of the old debt. A portion of these notes were refunded with bonds on November 13, 2003, March 11, 2004, and after year-end.

On July 31, 2003, the agency issued \$60,000,000 in Homeownership Program Bonds, Issue 2003-2 A & B. On August 14, 2003, the agency used \$27,070,000 of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used January 2, 2003 to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The refunding reduced the agency's debt service by \$2,694,900 over the next 28 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$4,923,598.

On August 14, 2003 a principal redemption was made on the Series 2002CN-1 Notes in the amount of \$27,070,000.

On September 4, 2003, the agency issued \$191,885,000 in Mortgage Finance Program Bonds, Issue 2003A. On September 17, 2003, all outstanding 1993 Series A bonds were refunded by issue 2003A. Mortgage prepayments and excess reserves were used to call \$39,250,000 of the bonds at par. The Optional Redemption provision was used to call the remaining \$152,670,000 of bonds at 102 percent. The carrying amount of these bonds was \$191,219,164. A call premium of \$3,053,400 was paid on the redemption of these bonds. The refunding resulted in a difference of \$3,754,236 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2028. The refunding increased the agency's debt service by \$27,458,335 over the next 25 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$7,499,720.

On November 3, 2003, the agency used \$89,355,000 of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of \$89,355,000 early redemption and \$0 current maturities). The carrying amount of these bonds was \$88,675,883. The refunding resulted in a difference of \$679,117 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**  
**JUNE 30, 2004, AND JUNE 30, 2003**

---

On November 5, 2003, the agency issued \$75,000,000 in Homeownership Program Bonds, Issue 2003-3 A & B. On November 13, 2003, the agency used \$37,555,000 of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used January 2, 2003 and July 1, 2003 to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The refunding increased the agency's debt service by \$6,527,806 over the next 30 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$4,000,240.

On November 13, 2003 a principal redemption was made on the Series 2002CN-1 Notes in the amount of \$37,555,000.

On January 2, 2004, the agency used \$27,700,000 of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of \$22,955,000 early redemption and \$4,745,000 current maturities). The carrying amount of these bonds was \$27,534,157. The refunding resulted in a difference of \$165,843 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On March 4, 2004, the agency issued \$80,000,000 in Homeownership Program Bonds, Issue 2004-1. On March 11, 2004, the agency used \$47,290,000 of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used July 1, 2003 to refund certain bonds previously issued in the Mortgage Finance Program. The refunding increased the agency's debt service by \$3,917,718 over the next 22.5 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$5,637,611.

On March 11, 2004 a principal redemption was made on the Series 2002CN-1 Notes in the amount of \$47,290,000.

On April 1, 2004, the agency used \$26,565,000 of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of \$26,565,000 early redemption and \$0 current maturities). The carrying amount of these bonds was \$26,372,070. The refunding resulted in a difference of \$192,930 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On June 10, 2004 the Series 2002CN-1 Notes were remarketed in the amount of \$273,240,000.

During the year ended June 30, 2003, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of \$3,120,000 and in the Homeownership Program Bonds in the amount of \$42,131,176. The respective carrying values of the bonds were \$3,085,935 and \$41,811,344. This resulted in an expense to the Mortgage Finance Program of \$34,065 and the Homeownership Program of \$319,832.

On July 1, 2002, the agency used \$57,460,000 of Single Family Mortgage Program Notes, 2001CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of \$47,565,000 early redemption and \$9,895,000 current maturities). The carrying amount of these bonds was \$57,019,806. The refunding resulted in a difference of \$440,194 between the reacquisition price and the net carrying amount of the old debt. This difference is charged to operations in the current year.

On July 31, 2002, the agency issued \$85,000,000 in Homeownership Program Bonds, Issue 2002-2 A & B. On September 12, 2002, the agency used \$56,600,000 of these bonds to partially refund the convertible drawdown notes, 2001CN-1, which were used July 1, 2002 to refund certain bonds



**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**  
**JUNE 30, 2004, AND JUNE 30, 2003**

previously issued in the Mortgage Finance Program and the Homeownership Program. The refunding increased the agency's debt service by \$13,918,085 over the next 30.5 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$209,641.

On December 12, 2002, the agency drew down \$11,385,000 of convertible drawdown notes, 2002CN-1. This amount was used to refund at maturity the 2001CN-1 drawdown notes on December 12, 2002.

On January 2, 2003, the agency drew down \$65,110,000 of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of \$55,725,000 early redemption and \$9,385,000 current maturities). The carrying amount of these bonds was \$64,626,178. The refunding resulted in a difference of \$483,822 between the reacquisition price and the net carrying amount of the old debt. This difference is charged to operations in the current year. A portion of these notes were refunded with bonds on April 10, August 14, and November 13, 2003.

On March 1, 2003, the agency drew down \$235,000 of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Homeownership Program (this amount consists of \$235,000 early redemption and \$0 current maturities). The carrying amount of these bonds was \$233,500. The refunding resulted in a difference of \$1,500 between the reacquisition price and the net carrying amount of the old debt. This difference is charged to operations in the current year.

On February 27, 2003, the agency issued \$50,000,000 in Homeownership Program Bonds, Issue 2003-1 A & B. On April 10, 2003, the agency used \$25,660,000 of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used on December 12, 2002 and January 2, 2003 to refund certain bonds and notes previously issued in the Mortgage Finance Program, the Homeownership Program, and the Single Family Mortgage Program Notes. The refunding reduced the agency's debt service by \$14,401,030 over the next 30 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$12,308,243.

Details of the bond retirements by issue are as follows:

<b>Year Ended June 30, 2004</b>							
<b>Date of Call</b>	<b>Issue</b>	<b>Par Value</b>	<b>Carrying Amount</b>	<b>Call Premium</b>	<b>Expense</b>	<b>Deferred Amount</b>	<b>Source of Funds</b>
<b>MORTGAGE FINANCE PROGRAM BONDS</b>							
07/01/2003	93A	\$6,630,000	\$6,630,000			\$ (-0-)	Current Refunding
07/01/2003	94A	19,505,000	19,396,842			(108,158)	Current Refunding
07/01/2003	94B	5,735,000	5,690,175			(44,825)	Current Refunding
07/01/2003	95A	28,880,000	28,622,435			(257,565)	Current Refunding
07/01/2003	95BC	2,730,000	2,701,855			(28,145)	Current Refunding
07/01/2003	95BC	1,755,000	1,736,907		\$ (18,093)		Prepayments
9/17/2003	93A	191,920,000	194,272,564	\$3,053,400		(700,836)	Current Refunding
11/03/2003	94A	895,000	889,907			(5,093)	Current Refunding
11/03/2003	94B	6,655,000	6,595,741			(59,259)	Current Refunding
11/03/2003	95A	2,800,000	2,793,352			(6,648)	Current Refunding
11/03/2003	95BC	1,110,000	1,097,323			(12,677)	Current Refunding
11/03/2003	95BC	2,705,000	2,674,107		(30,893)		Prepayments
01/02/2004	94A	955,000	954,578			(422)	Current Refunding

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**  
**JUNE 30, 2004, AND JUNE 30, 2003**

**Year Ended June 30, 2004 (cont.)**

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	Expense	Deferred Amount	Source of Funds
01/02/2004	94A	3,880,000	3,876,002		(3,998)		Prepayments
01/02/2004	94B	1,540,000	1,535,892			(4,108)	Current Refunding
01/02/2004	94B	17,850,000	17,729,805		(120,195)		Prepayments
01/02/2004	95A	1,190,000	1,189,416			(584)	Current Refunding
01/02/2004	95A	2,075,000	2,072,854		(2,146)		Prepayments
01/02/2004	95BC	460,000	456,722			(3,278)	Current Refunding
01/02/2004	95BC	10,195,000	10,098,147		(96,853)		Prepayments
04/01/2004	94A	805,000	804,598			(402)	Current Refunding
04/01/2004	94B	1,600,000	1,595,982			(4,018)	Current Refunding
04/01/2004	94B	6,100,000	6,084,682		(15,318)		Prepayments
04/01/2004	95A	1,210,000	1,209,152			(848)	Current Refunding
04/01/2004	95A	50,000	49,965		(35)		Prepayments
04/01/2004	95BC	520,000	516,591			(3,409)	Current Refunding
04/01/2004	95BC	4,725,000	4,694,027		(30,973)		Prepayments
	Sub-Total-	\$324,475,000	\$325,969,621	\$3,053,400	(\$318,504)	(\$1,240,275)	

**HOMEOWNERSHIP PROGRAM BONDS**

07/01/2003	91WX	\$8,000,000	\$7,934,812			(\$65,188)	Current Refunding
07/01/2003	91WX	825,000	818,277		(\$6,723)		Prepayments
07/01/2003	92Y1Z1	1,335,000	1,325,642		(9,358)		Prepayments
07/01/2003	92Y2Z2	700,000	693,831			(6,169)	Current Refunding
07/01/2003	92Y2Z2	510,000	505,506		(4,494)		Prepayments
07/01/2003	95-1	3,330,000	3,320,623			(9,377)	Current Refunding
07/01/2003	95-1	110,000	109,690		(310)		Prepayments
07/01/2003	96-1	2,070,000	2,055,357			(14,643)	Current Refunding
07/01/2003	96-1	1,025,000	1,017,749		(7,251)		Prepayments
07/01/2003	96-2	5,600,000	5,551,587			(48,413)	Current Refunding
07/01/2003	96-2	2,170,000	2,151,240		(18,760)		Prepayments
07/01/2003	96-3	4,995,000	4,948,673			(46,327)	Current Refunding
07/01/2003	96-4	8,485,000	8,394,729			(90,271)	Current Refunding
07/01/2003	96-4	950,000	939,893		(10,107)		Prepayments
07/01/2003	96-5	4,345,000	4,296,694			(48,306)	Current Refunding
07/01/2003	97-1	3,635,000	3,597,867			(37,133)	Current Refunding
07/01/2003	97-1	275,000	272,191		(2,809)		Prepayments
07/01/2003	97-2	3,170,000	3,147,949			(22,051)	Current Refunding
07/01/2003	97-2	385,000	382,322		(2,678)		Prepayments
07/01/2003	97-3	32,495,000	32,256,211			(238,789)	Current Refunding
07/01/2003	97-3	1,713,222	1,700,589		(12,633)		Prepayments
07/01/2003	98-1	1,500,000	1,482,991			(17,009)	Current Refunding
07/01/2003	98-1	40,000	39,546		(454)		Prepayments
07/01/2003	98-2	2,195,000	2,172,466			(22,534)	Current Refunding
07/01/2003	98-3	4,850,000	4,819,462			(30,538)	Current Refunding
07/01/2003	98-3	1,380,000	1,371,655		(8,345)		Prepayments
07/01/2003	99-1	2,390,000	2,365,596			(24,404)	Current Refunding
07/01/2003	99-1	865,000	856,168		(8,832)		Prepayments
07/01/2003	99-2	7,425,000	7,376,112			(48,888)	Current Refunding
07/01/2003	99-2	1,170,000	1,162,296		(7,704)		Prepayments
07/01/2003	99-3	9,640,000	9,549,974			(90,026)	Current Refunding
07/01/2003	99-3	660,000	653,836		(6,164)		Prepayments
07/01/2003	2000-1	12,930,000	12,834,726			(95,274)	Current Refunding
07/01/2003	2000-1	525,000	521,132		(3,868)		Prepayments
07/01/2003	2000-2	2,520,000	2,503,012			(16,988)	Current Refunding
07/01/2003	2000-2	2,905,000	2,885,417		(19,583)		Prepayments
07/01/2003	2001-1	6,035,000	6,007,135		(27,865)		Prepayments
07/01/2003	2001-2	1,400,000	1,384,272			(15,728)	Current Refunding
07/01/2003	2001-3	2,810,000	2,778,979			(31,021)	Current Refunding
07/01/2003	2002-1	995,000	990,936			(4,064)	Current Refunding
07/01/2003	2002-1	200,000	198,535		(1,465)		Prepayments
07/01/2003	2002-2	1,505,000	1,493,467			(11,533)	Current Refunding
07/01/2003	2002-2	140,000	138,927		(1,073)		Prepayments
11/03/2003	91WX	5,995,000	5,975,643			(19,357)	Current Refunding

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**  
**JUNE 30, 2004, AND JUNE 30, 2003**

**Year Ended June 30, 2004 (cont.)**

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	Expense	Deferred Amount	Source of Funds
11/03/2003	91WX	1,735,000	1,729,398		(5,602)		Prepayments
11/03/2003	92Y1Z1	2,320,000	2,299,769		(20,231)		Prepayments
11/03/2003	92Y2Z2	1,425,000	1,414,721		(10,279)		Prepayments
11/03/2003	95-1	1,290,000	1,286,537			(3,463)	Current Refunding
11/03/2003	95-1	290,000	289,222		(778)		Prepayments
11/03/2003	96-1	540,000	536,253			(3,747)	Current Refunding
11/03/2003	96-1	1,625,000	1,613,723		(11,277)		Prepayments
11/03/2003	96-2	1,800,000	1,785,298			(14,702)	Current Refunding
11/03/2003	96-2	2,940,000	2,915,987		(24,013)		Prepayments
11/03/2003	96-3	2,645,000	2,620,666			(24,334)	Current Refunding
11/03/2003	96-3	130,000	128,804		(1,196)		Prepayments
11/03/2003	96-4	3,240,000	3,208,945			(31,055)	Current Refunding
11/03/2003	96-4	1,370,000	1,356,869		(13,131)		Prepayments
11/03/2003	96-5	3,150,000	3,115,157			(34,843)	Current Refunding
11/03/2003	96-5	145,000	143,396		(1,604)		Prepayments
11/03/2003	97-1	2,535,000	2,510,835			(24,165)	Current Refunding
11/03/2003	97-1	950,000	940,944		(9,056)		Prepayments
11/03/2003	97-2	1,695,000	1,683,658			(11,342)	Current Refunding
11/03/2003	97-2	1,205,000	1,196,937		(8,063)		Prepayments
11/03/2003	98-1	2,015,000	1,993,979			(21,021)	Current Refunding
11/03/2003	98-1	1,650,000	1,632,787		(17,213)		Prepayments
11/03/2003	98-2	1,820,000	1,801,593			(18,407)	Current Refunding
11/03/2003	98-2	550,000	544,438		(5,562)		Prepayments
11/03/2003	98-3	3,495,000	3,475,461			(19,539)	Current Refunding
11/03/2003	98-3	3,985,000	3,962,722		(22,278)		Prepayments
11/03/2003	99-1	1,460,000	1,446,171			(13,829)	Current Refunding
11/03/2003	99-1	1,795,000	1,777,998		(17,002)		Prepayments
11/03/2003	99-2	6,385,000	6,345,433			(39,567)	Current Refunding
11/03/2003	99-2	3,415,000	3,393,838		(21,162)		Prepayments
11/03/2003	99-3	9,800,000	9,710,948			(89,052)	Current Refunding
11/03/2003	99-3	2,655,000	2,630,874		(24,126)		Prepayments
11/03/2003	2000-1	13,575,000	13,478,237			(96,763)	Current Refunding
11/03/2003	2000-1	2,225,000	2,209,140		(15,860)		Prepayments
11/03/2003	2000-2	7,015,000	6,974,130			(40,870)	Current Refunding
11/03/2003	2000-2	3,465,000	3,444,813		(20,187)		Prepayments
11/03/2003	2001-1	25,000	24,868			(132)	Current Refunding
11/03/2003	2001-1	6,690,000	6,654,604		(35,396)		Prepayments
11/03/2003	2001-2	1,810,000	1,786,512			(23,488)	Current Refunding
11/03/2003	2001-2	360,000	355,328		(4,672)		Prepayments
11/03/2003	2001-3	2,235,000	2,209,277			(25,723)	Current Refunding
11/03/2003	2001-3	1,025,000	1,013,203		(11,797)		Prepayments
11/03/2003	2002-1	3,330,000	3,305,123			(24,877)	Current Refunding
11/03/2003	2002-1	1,465,000	1,454,055		(10,945)		Prepayments
11/03/2003	2002-2	2,040,000	2,024,836			(15,164)	Current Refunding
11/03/2003	2002-2	585,000	580,651		(4,349)		Prepayments
01/02/2004	92Y1Z1	75,000	74,343		(657)		Prepayments
01/02/2004	92Y2Z2	310,000	307,768		(2,232)		Prepayments
01/02/2004	95-1	2,735,000	2,725,926			(9,074)	Current Refunding
01/02/2004	95-1	995,000	991,699		(3,301)		Prepayments
01/02/2004	96-1	200,000	199,162			(838)	Current Refunding
01/02/2004	96-1	790,000	786,690		(3,310)		Prepayments
01/02/2004	96-2	600,000	595,130			(4,870)	Current Refunding
01/02/2004	96-2	425,000	421,550		(3,450)		Prepayments
01/02/2004	96-3	545,000	542,704			(2,296)	Current Refunding
01/02/2004	96-4	1,045,000	1,035,728			(9,272)	Current Refunding
01/02/2004	96-5A	1,065,000	1,055,821			(9,179)	Current Refunding
01/02/2004	97-1	815,000	809,358			(5,642)	Current Refunding
01/02/2004	97-2	570,000	566,210			(3,790)	Current Refunding
01/02/2004	97-2	415,000	412,241		(2,759)		Prepayments
01/02/2004	97-3	70,000	70,000			(-0-)	Current Refunding
01/02/2004	98-1	500,000	494,810			(5,190)	Current Refunding
01/02/2004	98-1	445,000	440,381		(4,619)		Prepayments

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**  
**JUNE 30, 2004, AND JUNE 30, 2003**

<b>Year Ended June 30, 2004 (cont.)</b>							
<b>Date of Call</b>	<b>Issue</b>	<b>Par Value</b>	<b>Carrying Amount</b>	<b>Call Premium</b>	<b>Expense</b>	<b>Deferred Amount</b>	<b>Source of Funds</b>
01/02/2004	98-2	335,000	331,614			(3,386)	Current Refunding
01/02/2004	98-2	160,000	158,383		(1,617)		Prepayments
01/02/2004	98-3C	1,015,000	1,009,449			(5,551)	Current Refunding
01/02/2004	98-3C	1,165,000	1,158,629		(6,371)		Prepayments
01/02/2004	99-1	560,000	554,725			(5,275)	Current Refunding
01/02/2004	99-1	700,000	693,406		(6,594)		Prepayments
01/02/2004	99-2	1,950,000	1,937,989			(12,011)	Current Refunding
01/02/2004	99-2	1,040,000	1,033,594		(6,406)		Prepayments
01/02/2004	99-3	2,220,000	2,199,974			(20,026)	Current Refunding
01/02/2004	99-3	595,000	589,633		(5,367)		Prepayments
01/02/2004	2000-1	3,080,000	3,058,195			(21,805)	Current Refunding
01/02/2004	2000-1	545,000	541,142		(3,858)		Prepayments
01/02/2004	2000-2	1,810,000	1,800,624			(9,376)	Current Refunding
01/02/2004	2000-2	1,010,000	1,004,768		(5,232)		Prepayments
01/02/2004	2001-1	570,000	570,000			(-0-)	Current Refunding
01/02/2004	2001-1	2,480,000	2,470,092		(9,908)		Prepayments
01/02/2004	2001-2	1,295,000	1,281,069			(13,931)	Current Refunding
01/02/2004	2001-3	440,000	438,886			(1,114)	Current Refunding
01/02/2004	2002-1	1,035,000	1,025,692			(9,308)	Current Refunding
01/02/2004	2002-1	220,000	218,021		(1,979)		Prepayments
01/02/2004	2002-2	825,000	822,352			(2,648)	Current Refunding
01/02/2004	2003-1	275,000	272,131			(2,869)	Current Refunding
01/02/2004	2003-1	45,000	44,531		(469)		Prepayments
04/01/2004	92Y1Z1	825,000	817,973		(7,027)		Prepayments
04/01/2004	92Y2Z2	590,000	586,047		(3,953)		Prepayments
04/01/2004	95-1	1,795,000	1,789,419			(5,581)	Current Refunding
04/01/2004	95-1	40,000	39,876		(124)		Prepayments
04/01/2004	96-1	210,000	208,574			(1,426)	Current Refunding
04/01/2004	96-1	740,000	734,974		(5,026)		Prepayments
04/01/2004	96-2	490,000	486,076			(3,924)	Current Refunding
04/01/2004	96-2	660,000	654,714		(5,286)		Prepayments
04/01/2004	96-3	940,000	931,521			(8,479)	Current Refunding
04/01/2004	96-3	90,000	89,188		(812)		Prepayments
04/01/2004	96-4	1,775,000	1,755,984			(19,016)	Current Refunding
04/01/2004	96-4	375,000	370,983		(4,017)		Prepayments
04/01/2004	96-5	1,175,000	1,162,247			(12,753)	Current Refunding
04/01/2004	96-5	45,000	44,512		(488)		Prepayments
04/01/2004	97-1	570,000	564,671			(5,329)	Current Refunding
04/01/2004	97-1	200,000	198,130		(1,870)		Prepayments
04/01/2004	97-2	510,000	506,648			(3,352)	Current Refunding
04/01/2004	97-2	360,000	357,634		(2,366)		Prepayments
04/01/2004	98-1	780,000	772,007			(7,993)	Current Refunding
04/01/2004	98-1	595,000	588,903		(6,097)		Prepayments
04/01/2004	98-2	660,000	653,443			(6,557)	Current Refunding
04/01/2004	98-2	185,000	183,162		(1,838)		Prepayments
04/01/2004	98-3	945,000	939,887			(5,113)	Current Refunding
04/01/2004	98-3	1,070,000	1,064,210		(5,790)		Prepayments
04/01/2004	99-1	515,000	510,202			(4,798)	Current Refunding
04/01/2004	99-1	625,000	619,177		(5,823)		Prepayments
04/01/2004	99-2	1,730,000	1,718,930			(11,070)	Current Refunding
04/01/2004	99-2	920,000	914,113		(5,887)		Prepayments
04/01/2004	99-3	2,240,000	2,219,988			(20,012)	Current Refunding
04/01/2004	99-3	590,000	584,729		(5,271)		Prepayments
04/01/2004	2000-1	3,400,000	3,376,187			(23,813)	Current Refunding
04/01/2004	2000-1	575,000	570,973		(4,027)		Prepayments
04/01/2004	2000-2	965,000	958,526			(6,474)	Current Refunding
04/01/2004	2000-2	1,450,000	1,440,272		(9,728)		Prepayments
04/01/2004	2001-1	1,800,000	1,790,964		(9,036)		Prepayments
04/01/2004	2001-2	1,075,000	1,061,512			(13,488)	Current Refunding
04/01/2004	2001-2	210,000	207,365		(2,635)		Prepayments
04/01/2004	2001-3	685,000	677,245			(7,755)	Current Refunding
04/01/2004	2001-3	310,000	306,491		(3,509)		Prepayments
04/01/2004	2002-1	1,165,000	1,154,752			(10,248)	Current Refunding

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004, AND JUNE 30, 2003**

**Year Ended June 30, 2004 (cont.)**

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	Expense	Deferred Amount	Source of Funds
04/01/2004	2002-1	510,000	505,514		(4,486)		Prepayments
04/01/2004	2002-2	540,000	535,427			(4,573)	Current Refunding
04/01/2004	2002-2	150,000	148,730		(1,270)		Prepayments
04/01/2004	2003-1	265,000	262,501			(2,499)	Current Refunding
04/01/2004	2003-1	75,000	74,293		(707)		Prepayments
Sub-Total		\$342,488,222	\$339,874,947	\$-0-	(\$641,457)	(\$1,971,818)	
Total		\$666,963,222	\$665,844,568	\$3,053,400	(\$959,961)	(\$3,212,093)	

**Year Ended June 30, 2003**

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	Expense	Deferred Amount	Source of Funds
<b>MORTGAGE FINANCE PROGRAM BONDS</b>							
07/01/2002	93A	\$9,090,000	\$9,073,269		(\$16,731)		Current Refunding
07/01/2002	94A	2,075,000	2,068,667		(6,333)		Current Refunding
07/01/2002	94B	4,905,000	4,869,450		(35,550)		Current Refunding
07/01/2002	95A	3,775,000	3,743,693		(31,307)		Current Refunding
07/01/2002	95BC	1,300,000	1,284,618		(15,382)		Current Refunding
07/01/2002	95BC	1,325,000	1,309,323		(15,677)		Prepayments
01/02/2003	93A	10,275,000	10,252,907		(22,093)		Current Refunding
01/02/2003	94A	2,545,000	2,533,001		(11,999)		Current Refunding
01/02/2003	94B	4,590,000	4,558,384		(31,616)		Current Refunding
01/02/2003	95A	3,190,000	3,165,373		(24,627)		Current Refunding
01/02/2003	95BC	1,580,000	1,563,814		(16,186)		Current Refunding
01/02/2003	95BC	1,795,000	1,776,612		(18,388)		Prepayments
Sub-Total-		\$46,445,000	\$46,199,111	\$-0-	(\$245,889)	(\$-0-)	
<b>HOMEOWNERSHIP PROGRAM BONDS</b>							
07/01/2002	G	\$5,000	\$5,000		(\$-0-)		Current Refunding
07/01/2002	91WX	5,330,000	5,261,435		(68,565)		Current Refunding
07/01/2002	91WX	1,145,000	1,130,271		(14,729)		Prepayments
07/01/2002	92Y1Z1	2,100,000	2,076,360		(23,640)		Current Refunding
07/01/2002	92Y2Z2	1,730,000	1,714,106		(15,894)		Current Refunding
07/01/2002	92Y2Z2	65,000	64,403		(597)		Prepayments
07/01/2002	95-1	860,000	857,445		(2,555)		Current Refunding
07/01/2002	95-1	275,000	274,183		(817)		Prepayments
07/01/2002	96-1	445,000	441,672		(3,328)		Current Refunding
07/01/2002	96-1	1,275,000	1,265,464		(9,536)		Prepayments
07/01/2002	96-2	1,080,000	1,070,465		(9,535)		Current Refunding
07/01/2002	96-2	1,190,000	1,179,494		(10,506)		Prepayments
07/01/2002	96-3	1,690,000	1,673,425		(16,575)		Current Refunding
07/01/2002	96-3	125,000	123,774		(1,226)		Prepayments
07/01/2002	96-4	1,890,000	1,870,048		(19,952)		Current Refunding
07/01/2002	96-4	695,000	687,663		(7,337)		Prepayments
07/01/2002	96-5	1,970,000	1,953,294		(16,706)		Current Refunding
07/01/2002	97-1	1,200,000	1,187,691		(12,309)		Current Refunding
07/01/2002	97-1	95,000	94,026		(974)		Prepayments
07/01/2002	97-2	1,110,000	1,103,445		(6,555)		Current Refunding
07/01/2002	97-3	1,220,909	1,215,450		(5,459)		Prepayments
07/01/2002	98-1	1,000,000	989,385		(10,615)		Current Refunding
07/01/2002	98-2	965,000	955,136		(9,864)		Current Refunding
07/01/2002	98-3	1,955,000	1,943,186		(11,814)		Current Refunding
07/01/2002	98-3	620,000	616,253		(3,747)		Prepayments
07/01/2002	99-1	520,000	514,655		(5,345)		Current Refunding
07/01/2002	99-1	15,000	14,846		(154)		Prepayments
07/01/2002	99-2	2,335,000	2,320,566		(14,434)		Current Refunding
07/01/2002	99-3	6,305,000	6,244,180		(60,820)		Current Refunding
07/01/2002	99-3	405,000	401,093		(3,907)		Prepayments
07/01/2002	2000-1	3,320,000	3,299,001		(20,999)		Current Refunding
07/01/2002	2000-2	100,000	100,000		(-0-)		Current Refunding
07/01/2002	2000-2	3,130,000	3,104,459		(25,541)		Prepayments
07/01/2002	2001-1	6,030,000	5,996,279		(33,721)		Prepayments
07/01/2002	2001-2	365,000	360,102		(4,898)		Current Refunding
7/01/2002	2001-2	55,000	54,262		(738 )		Prepayments

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**  
**JUNE 30, 2004, AND JUNE 30, 2003**

**Year Ended June 30, 2003 (cont.)**

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	Expense	Deferred Amount	Source of Funds
07/01/2002	2001-3	40,000	39,512		(488)		Current Refunding
07/01/2002	2001-3	20,000	19,756		(244)		Prepayments
01/02/2003	91WX	1,080,000	1,066,570		(13,430)		Current Refunding
01/02/2003	91WX	2,025,000	1,999,819		(25,181)		Prepayments
01/02/2003	92Y1Z1	565,000	561,996		(3,004)		Current Refunding
01/02/2003	92Y1Z1	985,000	976,894		(8,106)		Prepayments
01/02/2003	92Y2Z2	310,000	307,296		(2,704)		Current Refunding
01/02/2003	92Y2Z2	580,000	574,940		(5,060)		Prepayments
01/02/2003	95-1	1,175,000	1,171,655		(3,345)		Current Refunding
01/02/2003	96-1	290,000	287,882		(2,118)		Current Refunding
01/02/2003	96-1	675,000	670,070		(4,930)		Prepayments
01/02/2003	96-2	1,405,000	1,392,890		(12,110)		Current Refunding
01/02/2003	96-2	1,605,000	1,591,166		(13,834)		Prepayments
01/02/2003	96-3	1,610,000	1,595,289		(14,711)		Current Refunding
01/02/2003	96-4	1,830,000	1,811,156		(18,844)		Current Refunding
01/02/2003	96-4	460,000	455,263		(4,737)		Prepayments
01/02/2003	96-5	2,485,000	2,456,395		(28,605)		Current Refunding
01/02/2003	97-1	2,125,000	2,103,717		(21,283)		Current Refunding
01/02/2003	97-1	160,000	158,398		(1,602)		Prepayments
01/02/2003	97-2	1,925,000	1,911,561		(13,439)		Current Refunding
01/02/2003	97-2	960,000	953,298		(6,702)		Prepayments
01/02/2003	97-3	1,490,267	1,484,023		(6,244)		Prepayments
01/02/2003	98-1	2,170,000	2,146,388		(23,612)		Current Refunding
01/02/2003	98-1	1,315,000	1,300,691		(14,309)		Prepayments
01/02/2003	98-2	1,250,000	1,236,958		(13,042)		Current Refunding
01/02/2003	98-2	795,000	786,705		(8,295)		Prepayments
01/02/2003	98-3	2,220,000	2,206,857		(13,143)		Current Refunding
01/02/2003	98-3	1,775,000	1,764,491		(10,509)		Prepayments
01/02/2003	99-1	1,650,000	1,634,364		(15,636)		Current Refunding
01/02/2003	99-1	1,420,000	1,406,543		(13,457)		Prepayments
01/02/2003	99-2	3,480,000	3,457,471		(22,529)		Current Refunding
01/02/2003	99-2	1,890,000	1,877,764		(12,236)		Prepayments
01/02/2003	99-3	6,980,000	6,914,055		(65,945)		Current Refunding
01/02/2003	99-3	1,905,000	1,887,002		(17,998)		Prepayments
01/02/2003	2000-1	5,140,000	5,101,889		(38,111)		Current Refunding
01/02/2003	2000-1	990,000	982,660		(7,340)		Prepayments
01/02/2003	2000-2	410,000	405,075		(4,925)		Current Refunding
01/02/2003	2000-2	2,205,000	2,189,958		(15,042)		Prepayments
01/02/2003	2001-1	515,000	512,207		(2,793)		Current Refunding
01/02/2003	2001-1	4,335,000	4,311,492		(23,508)		Prepayments
01/02/2003	2001-2	1,325,000	1,310,962		(14,038)		Current Refunding
01/02/2003	2001-3	2,540,000	2,513,460		(26,540)		Current Refunding
01/02/2003	2002-1	450,000	446,606		(3,394)		Current Refunding
01/02/2003	2002-1	200,000	198,491		(1,509)		Prepayments
03/01/2003	2000-2	235,000	233,500		(1,500)		Current Refunding
Sub-Total		\$121,611,176	\$120,577,652	\$-0-	(\$1,033,524)	(\$-0-)	
Total		\$168,056,176	\$166,776,763	\$-0-	(\$1,279,413)	(\$-0-)	

Under the bond resolutions, the agency has the option to redeem bonds at an initial price of 103 percent and subsequently at prices declining to par. Generally, the redemption option cannot be exercised prior to the time the bonds have been outstanding for ten years. Certain special redemption options, as governed by the bond resolutions, are permitted prior to that time.

The bonds are secured, as described in the applicable bond resolutions, by the revenues, monies, investments, mortgage loans and other assets in the funds and accounts established by the resolutions.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**  
**JUNE 30, 2004, AND JUNE 30, 2003**

**d. Long-term Liability Activity**

The following table is a summary of the long-term liability activity for the year ended June 30, 2004.

<b>Long-term Liabilities</b> (Thousands)				
	<b>Beginning Balance <u>July 1, 2003</u></b>	<b><u>Additions</u></b>	<b><u>Reductions</u></b>	<b>Ending Balance <u>June 30, 2004</u></b>
Notes Payable	\$51,070	\$334,085	(\$111,915)	\$273,240
Bonds Payable	1,776,991	409,065	(690,543)	1,495,513
Plus: Unamortized Bond Premiums	-0-	4,781	(126)	4,655
Less: Deferred Amount on Refundings	(7,485)	(4,246)	862	(10,869)
Compensated Absences	627	334	(389)	572
Escrow Deposits	15,302	4,029	(4,125)	15,206
Arbitrage Rebate Payable	2,277	4,261	(428)	6,110
Deferred Revenue	392	977	(1,022)	347
Total	<u>\$1,839,174</u>	<u>\$753,286</u>	<u>(\$807,686)</u>	<u>\$1,784,774</u>

The following table is a summary of the long-term liability activity for the year ended June 30, 2003.

<b>Long-term Liabilities</b> (Thousands)				
	<b>Beginning Balance <u>July 1, 2002</u></b>	<b><u>Additions</u></b>	<b><u>Reductions</u></b>	<b>Ending Balance <u>June 30, 2003</u></b>
Notes Payable	\$-0-	\$76,730	(\$25,660)	\$51,070
Bonds Payable	1,828,621	139,095	(190,725)	1,776,991
Less: Deferred Amount on Refundings	(8,227)	(-0-)	742	(7,485)
Compensated Absences	523	453	(349)	627
Escrow Deposits	14,633	3,251	(2,582)	15,302
Arbitrage Rebate Payable	3,935	728	(2,386)	2,277
Deferred Revenue	720	3,959	(4,287)	392
Total	<u>\$1,840,205</u>	<u>\$224,216</u>	<u>(\$225,247)</u>	<u>\$1,839,174</u>

**e. Notes Issued and Outstanding**

The Single Family Mortgage Notes Trust Indenture, dated December 1, 1997 (the "Trust Indenture"), provided for the issuance of agency drawdown notes with a maximum aggregate principal amount of \$65,000,000. On April 1, 1999, the Trust Indenture was supplemented providing for the maximum aggregate principal amount to be \$200,000,000. On December 1, 2002, the Trust Indenture was supplemented providing for the maximum aggregate principal amount to be \$450,000,000.

The notes bear interest, payable on the second Thursday of each succeeding month with respect to the principal amount drawn down by the agency. The interest rate is equal to ninety percent (90%) of the bond equivalent yield as determined on the related rate date. On December 1, 2002 the interest rate was changed to ninety-nine percent (99%) of the bond equivalent yield as determined on the related rate date.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**  
**JUNE 30, 2004, AND JUNE 30, 2003**

The following table is a summary of the note activity for the year ended June 30, 2004.

<b>NOTES ISSUED AND OUTSTANDING</b>							
(Thousands)							
Series	Maturity	Stated Principal	Interest Rate (Percent)	Beginning Balance 7/01/2003	Additions	Reductions	Ending Balance 6/30/2004
<b>SINGLE FAMILY MORTGAGE NOTES</b>							
2002CN-1	12/8/2005	\$ 450,000	1.206	\$51,070	\$334,085	(\$111,915)	\$273,240
Total Single Family Mortgage Notes				\$51,070	\$334,085	(\$111,915)	\$273,240
Less: Deferred Amount on Refundings				-0-	(-0-)	-0-	(-0-)
Net Single Family Mortgage Notes				\$51,070	\$334,085	(\$111,915)	\$273,240

The following table is a summary of the note activity for the year ended June 30, 2003.

<b>NOTES ISSUED AND OUTSTANDING</b>							
(Thousands)							
Series	Maturity	Stated Principal	Interest Rate (Percent)	Beginning Balance 7/01/2002	Additions	Reductions	Ending Balance 6/30/2003
<b>SINGLE FAMILY MORTGAGE NOTES</b>							
2001CN-1	12/12/2002	\$200,000	1.608	\$67,985	\$ -0-	(\$67,985)	\$ -0-
2002CN-1	12/8/2005	\$450,000	1.054	-0-	76,730	(25,660)	51,070
Total Single Family Mortgage Notes				\$67,985	\$76,730	(\$93,645)	\$51,070
Less: Deferred Amount on Refundings				(76)	-0-	76	-0-
Net Single Family Mortgage Notes				\$67,909	\$76,730	(\$93,569)	\$51,070

The activity of the 2002CN-1 notes shown above is also included in the summary of long-term liability activity in part d. of this note.

## **NOTE 5. RESTRICTED NET ASSETS**

The amount shown on the Statement of Net Assets as Restricted for single family bond programs is contractually pledged, under the bond resolutions of the agency, to the owners of the bonds issued under such bond resolutions. As pledged assets, the contractual provisions of the bond resolutions restrict the use of such assets. However, the assets may be removed from the lien of the bond resolutions if certain parity tests, as established by the respective bond resolutions, are satisfied. Assets removed from the lien of the respective bond resolutions may be used for other purposes.

The amount shown as Restricted for Grant Programs represents unexpended grant money that has been awarded to grantees through various grant programs administered by the agency.

The amount shown as Restricted for Homebuyers Revolving Loan Program represents the amount of net assets that are restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of these net assets is restricted under legislation enacted in fiscal year 1986.

## **NOTE 6. DEFINED BENEFIT PENSION PLAN**

The agency contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEPP), a cost-sharing, multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.



**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**  
**JUNE 30, 2004, AND JUNE 30, 2003**

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The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230 or by calling (615) 741-8202.

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 7.27% of annual covered payroll. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees. The agency's contributions to TCRS for

the years ended June 30, 2004, 2003, and 2002, were \$480,912, \$448,684, and \$353,618. Those contributions met the required contributions for each year.

**NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES**

Most mortgage loans are insured by the Federal Housing Administration (FHA) or an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's Board of Directors has designated \$750,000 of unrestricted net assets as a provision for possible loan losses arising from participation in the Rural Economic and Community Development (RECD) Loan Guarantee Program. An additional \$232,000 was designated to provide for losses on loans not specifically covered under one of the above programs, and \$500,000 has been designated for self-insurance of second mortgages.

**NOTE 8. RISK MANAGEMENT**

**a. Commercial Insurance**

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**b. Risk Management Fund**

The state has set aside assets for claim settlement in an internal service fund, the Risk Management Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund.

**c. Employee Group Insurance Fund**

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**  
**JUNE 30, 2004, AND JUNE 30, 2003**

**NOTE 9. OTHER POST-EMPLOYMENT BENEFITS**

The State of Tennessee provides and administers a group health insurance program which provides post-employment health insurance benefits to eligible agency retirees. The agency assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

**NOTE 10. PAYMENTS TO PRIMARY GOVERNMENT**

From time to time, the State of Tennessee has called upon the agency and its resources, together with resources of other departments, agencies and organizations in state government, to provide funds to the State General Fund to balance the State budget. The following is a description of these occurrences in relationship to the agency. On June 30, 1995, \$15,000,000 from the agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, \$43,000,000 was transferred from the agency to the State General Fund. The \$43,000,000 transferred from the agency came from the following resources of the agency: (i) \$15,459,157 from tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. On June 30, 2002, a transfer from the agency to the primary government in the amount of \$35,367,449 was made from the Assets Fund for the sole purpose of meeting the requirements of funding the operations of the primary government for the year ended June 30, 2002.

**NOTE 11. SUBSEQUENT EVENTS**

- a. Mortgage prepayments, foreclosure proceeds, and bond proceeds were used to redeem bonds as indicated below:

July 1, 2004	Mortgage Finance Program	\$ 3,390,000
	Homeownership Program	<u>\$34,441,071</u>
	Total	<u>\$37,831,071</u>

- b. On July 1, 2004 a seventh drawdown was made on the Series 2002CN-1 Notes in the amount of \$39,185,000. These proceeds were used to refund bonds previously issued in the Mortgage Finance and Homeownership programs (\$27,955,000 early redemption and \$11,230,000 current maturities).

- c. Homeownership Program Bonds, Issue 2004-2, were sold on July 15, 2004. The bond maturities are as follows:

<b>BONDS ISSUED</b>			
(Thousands)			
Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2004-2	7/1/2005-1/1/2035	<u>\$100,000</u>	1.85 to 5.25
TOTAL ALL ISSUES		<u>\$100,000</u>	

On August 12, 2004, the agency used \$43,920,000 of these bonds to partially refund the convertible drawdown notes, 2002 CN-1, which were used July 1, 2003, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs.

- d. Bond proceeds were used to redeem bonds as indicated below:

August 1, 2004	Mortgage Finance Program	\$ -0-
	Homeownership Program	<u>\$7,835,000</u>
	Total	<u>\$7,835,000</u>

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**  
**JUNE 30, 2004, AND JUNE 30, 2003**

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- e. On August 31, 2004 the first drawdown was made on the Series 2004CN-1 Notes in the amount of \$34,145,000.